

FACT SHEET

LETTER OF CREDIT CAPPING POLICY

BACKGROUND

After an Ex-Im Bank credit and/or guarantee is made operative, a letter of credit (L/C) may be opened by the lending bank or a bank (L/C Bank) designated by the borrower and acceptable to Ex-Im Bank. The L/C Bank that issues, advises or confirms the L/C must be located in the U.S. The L/C must be approved by Ex-Im Bank prior to its issuance, advice, or confirmation by the L/C Bank. Subsequently, the beneficiary may draw down the L/C up to the amount of the L/C. For Ex-Im Bank loans, Ex-Im Bank will reimburse (disburse) the L/C Bank for all amounts drawn down.

POLICY

The following policy will permit Ex-Im Bank to manage its loan and guarantee portfolios properly and to take necessary prudent actions in the event of a default while minimizing adverse impact on the U.S. exporters.

Ex-Im Bank may require a dollar limit on L/C's (LC Cap) applicable only to the "**highest risk**" transactions. For example, an L/C Cap may be applied to transactions in which Ex-Im Bank requires risk sharing, transactions in sectors (public or private) or markets that deviate from the Country Limitations Schedule, or transactions in which there are credit structure concerns. For cases in which an L/C Cap is applied, it will be invoked only in the event of a payment default.

The L/C Cap will be determined by the Board of Directors on a case-by-case basis based on Ex-Im Bank's Credit Administration Division's recommendation after consultation with the Engineering and Environment Division. The objective is to set the L/C Cap at an amount that allows the exporter to recoup reasonable demobilization costs and allows Ex-Im Bank to properly manage its risk.

MORE INFORMATION

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